

Iowa Legislative Fiscal Bureau

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Prison Industries Private Sector Employment of Inmates

ISSUE

This is an *Issue Review* examining private sector employment of prison inmates, including the federal requirements, types of jobs, and program costs and revenues.

AFFECTED AGENCIES

Department of Corrections and Iowa Prison Industries

CODE AUTHORITY

Sections 904.701, 904.801-815, and Chapter 912, Code of Iowa

BACKGROUND

Historically, prison inmates' labor performed two functions - punishment and rehabilitation. Traditionally, the use of prison labor has been opposed by free labor and some businesses. By 1801, the state of New York required prison-made boots be clearly labeled as such. Between 1830 and 1870, lease and contract systems were used in many states as an attempt to make prisons self-supporting. Under these systems, inmate labor was leased to private businesses, often resulting in complaints of exploitation and unfair competition. By 1900, interstate commerce in prison-made goods was being limited, leading to the development of the "state-use system." In 1929, the federal Hawes-Cooper Act further restricted interstate sale of prison-made goods, and in 1935, the Ashurst-Summers Act prohibited transportation of prison-made goods into states forbidding their entry and required labeling of prison-made goods. During the Great Depression due to mass unemployment, every state passed legislation to ban prison-made goods from other states (Johnson, 1974:445-447). In recent years, the restrictions on inmate labor used to produce goods for interstate commerce have been lessened so that inmates can hold jobs when they do not compete with free labor or create unfair advantages for the participating businesses.

In 1979, Congress created an exception to the ban on interstate transportation of inmate-made goods with the Prison Industries Enhancement Act. The Act permitted the use of inmate labor by private industry in states with program certification. In August 1989, the Iowa Department of Corrections received certification from the federal Bureau of Justice Assistance. As of December 1997, thirty-eight states were certified for private sector employment of inmates, and 2,709 inmates were employed. Nationally, inmates are employed in a wide variety of businesses, including: commercial laundries, airline reservation

services, manufacturing and assembly, machine shops, food processing, agricultural related-businesses, telemarketing, recycling, electronic products, and clothing.

In the early 1990's, Iowa Prison Industries began private sector employment of inmates as a pilot project. By FY 1996, less than a dozen inmates held private sector jobs. During FY 1997, over thirty inmates were employed by the private sector. By the end of FY 1998, nine Iowa companies employed 106 inmates. To date in FY 1999, two more companies have started employing prison inmates, increasing the total to approximately 195 employees.

Legislation has affected the employment of prison inmates in Iowa. During the 1995 Legislative Session, HF 215 (Inmate Hard Labor Act) was passed requiring capable inmates to perform hard labor. One of the Department of Corrections' responses to this Act was to increase its efforts to obtain private-sector employment for inmates. Beginning in FY 1998, the Governor's budget recommendation to the Legislature included a reduction to the Department of Corrections funding to be offset by revenues collected from the earnings of inmates and Community-Based Corrections clients. Inmates in private sector jobs were budgeted to produce revenues of \$511,000 for the prisons; the prisons recovered \$430,000 for an \$81,000 shortfall. The FY 1999 Governor's budget recommendation, which was passed by the Legislature, included a total reduction of \$2.6 million. Of this amount, \$1.7 million is to be recovered from the wages of private sector employed inmates.

CURRENT SITUATION

Recent federal and state legislative changes have made it possible for inmates to be employed by private sector businesses that participate in interstate commerce. The primary requirements are:

- The inmate employee must not displace an employed worker or fill a position when a local surplus of qualified labor exists. Employment of inmates can not impair existing contracts for employment or services.
- Inmate employment must be voluntary.
- Inmate workers must be paid wages comparable to the industry wage standard received in that locality.
- Inmates must be covered by worker's compensation.
- Inmates are not eligible for unemployment compensation while incarcerated. (Employed parolees and probationers are eligible for unemployment compensation.)
- Inmates must be screened and security provided to protect public safety.

When a business seeks to hire inmates, the Department of Corrections verifies with the Iowa Workforce Development that it has not been able to place civilian employees with the business and checks the statewide prevailing wage for that class of job to confirm the wages offered meet the requirements. The business then interviews the inmates screened by the Department of Corrections and hires the inmates they find acceptable.

When an inmate is employed by a private sector business, his or her wages are paid to the Department of Corrections. After all federal, state, and local taxes and other payroll deductions are made, 20.0% of the balance is placed in the inmate's personal account. Next payments are made in this order: support of the inmate's dependents, restitution as ordered by the court, 5.0% to the Victim Compensation Fund, other legal obligations, reimbursement to the Department of Corrections for the costs of incarceration, and reimbursement to Iowa Prison Industries for the

costs incurred providing inmate employment. If there are any funds remaining after the above payments, they would be deposited in the inmate's account.

To date, there are 11 private sector employers employing approximately 195 inmates. The companies are described as follows:

Company	Facility Supplying Inmates	Type of Work	Typical No. of Inmates Employed	Hourly Wage Scale
Diamond Crystal	Mitchellville	Food services company that repackages food products such as drink mixes and cake mixes.	12	\$7.25 to \$8.50
CGB Printing	Newton	Contract printing company that prints grocery ads, weekly inserts, special print orders, and brochures.	15	\$7.25 to \$8.50
Midland Plastics	Newton	Manufactures plastic products such as bleach bottles, spice bottles, and other molded plastic items.	11	\$7.25 to \$8.50
Warren Foods	Mitchellville	Manufactures a variety of food products, such as frozen noodles and vegetables. Customers include Banquet Foods, ConAgri Foods, and others.	20	\$7.00 to \$8.00
Dee Zee Manufacturing	Mitchellville	Manufactures add-on truck accessories, including running boards, tool boxes, and other items.	5	\$7.00 to \$9.00
Clark Industries	Mt. Pleasant	A "job shop" that produces steel finished products, such as fork lift arms. Inmates operate steel lathes, presses, and welding equipment.	14	\$7.50 to \$11.50
Heartland Communications	Rockwell City	A telemarketing operation for business to business information collection.	25	\$5.25, plus incentive
Pride of Iowa	Mitchellville	Produces sandwiches for convenience stores and special events.	8	\$6.50 minimum
Trinity Corrections	Rockwell City	Private, non-profit organization operating prison businesses in Iowa, South Dakota, and Colorado. Contracts with a variety of companies for welding, woodworking, assembly, sewing, and similar projects.	20	\$6.00 to \$10.00
Iowa Ag LLC	Rockwell City	An egg company supplying Iowa customers. Inmates operate machinery, pack, and ship eggs.	60	\$6.00 to \$7.00
Dakota Chemaclay	Ft. Dodge	A company that makes ceramic lawn ornaments and figurines.	5	\$5.25

For comparison, Prison Industries employs approximately 375 inmates in prison run businesses and activities. Prison Industries provides inmates with jobs in such areas as furniture manufacturing and refurbishing, metal stamping for license plates and signs, printing, dry cleaning, machine shop, housekeeping, Braille translation, CD rom records storage, and farming. The wage scale for Prison Industries employed inmates is \$0.40 to \$0.85 per hour.

The Misty Harbour Company, a boat manufacturing company, will be hiring 10 to 15 inmates at the Fort Dodge institution before the end of calendar year 1998. Of the 12 companies employing prison inmates, six companies lease space on the prison grounds for inmate work, and six have inmates transported to their business locations. The companies with operations located at the

prisons pay \$1.00 per year for rent and pay for utilities. There is some variation in costs covered by the six off-site companies, but most transportation and salaries for correctional officers to supervise inmates at work are paid by the institutions. The Department sees the low rent as an economic incentive, similar to tax abatements offered by cities and counties, for companies to take on the costs and operational adjustments involved in employing inmates in a prison setting.

Inmate employment in the private sector has both benefits and disadvantages. Some of the benefits include:

- Work is a highly valued privilege for inmates. Working inmates are typically better behaved and have fewer discipline problems.
- Employed inmates pay a portion of the costs of their incarceration.
- In a tight labor market, businesses have another source of workers. Companies report inmate workers are equally or more productive than civilian employees.
- Inmates learn positive work attitudes and responsibilities that are transferable to other jobs after release from prison. Some inmates learn specific skills, such as welding, to be employable upon release.
- Companies can hire inmates upon release, thereby receiving a trained employee who is a known quantity.

Some of the disadvantages associated with private-sector employment of inmates include:

- Movement of inmates outside the institutions increases security risks and makes it easier to introduce contraband into the prison.
- Tools both within the prison workplace and the off-site workplace must be carefully monitored so they cannot be used to make weapons or be taken into the prison to be used as weapons.
- Work schedules can be disrupted when disturbances and lockdowns prevent inmates from going to work. A shorter work schedule due to disruptions caused by inmate counts, tool checks, and monitoring activities that require work stoppage.
- Prisons are usually located away from population centers which requires the inmates be transported to the work or the work transported to the prison, thus increasing transportation costs for the prisons or the businesses.
- Employment of inmates increases the available labor supply in a locality and has the potential for suppressing wages or preventing them from rising to a level required to attract civilian employees.

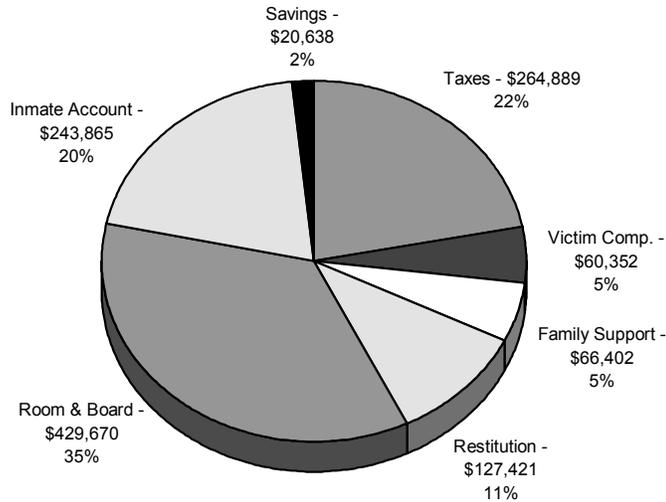
BUDGET IMPACT

The costs of providing private sector employment for inmates are included in both the institutions budgets and Iowa Prison Industries budgets. The costs include administrative costs for identifying and qualifying employers, accounting and office staff, materials, travel, transportation of inmates, supervision by correctional officers, equipment, and facilities. The Department has not identified all of the associated operations costs at this time. A total of \$3.0 million is being spent on building construction for private sector employment of inmates. Prison Industries spent \$800,000 to

construct a building at Rockwell City, and a \$2.2 million FY 1998 supplemental appropriation was made to construct industries buildings at Newton and Mitchellville.

The Department projects private sector employment of inmates to grow to more than 400. In FY 1998, a total of 106 inmates were employed in private sector jobs. They had earned \$1.2 million in wages from private sector employment. The funds were distributed as follows:

FY 1998 Distribution of Inmate Private Sector Wages



Total wages = \$1,213,237

REFERENCE:

1974 Johnson, Elmer Hubert. Crime, Correction, and Society. Homewood, Illinois: Dorsey Press.

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